

Grand Valley Regional Biosolids Authority

Financial Statements Years Ended June 30, 2008 and 2007



BDO Seidman, LLP
Accountants and Consultants



Grand Valley Regional Biosolids Authority

Financial Statements
Years Ended June 30, 2008 and 2007

Grand Valley Regional Biosolids Authority

Contents

| | |
|--|-------|
| Independent Auditors' Report | 3 |
| Management's Discussion and Analysis | 4-8 |
| Financial Statements | |
| Statements of Net Assets | 10 |
| Statements of Revenues, Expenses and Changes in Net Assets | 11 |
| Statements of Cash Flows | 12 |
| Notes to Financial Statements | 13-15 |



Independent Auditors' Report

Members of the Grand Valley
Regional Biosolids Authority
Grand Rapids, Michigan

We have audited the accompanying financial statements of the Grand Valley Regional Biosolids Authority (the Authority), as of and for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Grand Valley Regional Biosolids Authority at June 30, 2008 and 2007, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BDO Seidman, LLP

Grand Rapids, Michigan
December 1, 2008

Management's Discussion and Analysis

This section of the Grand Valley Regional Biosolids Authority's (the Authority) financial report presents a discussion and analysis of the Authority's financial performance for the year ended June 30, 2008. The discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with, and is qualified in its entirety by, the financial statements and notes. This discussion and analysis is designed to focus on current activities, resulting changes and currently known facts.

Using the Financial Report

This financial report consists of three financial statements that focus on the financial condition of the Authority and the results of its operations as a whole.

One of the most important questions asked about governmental finances is whether the unit of government as a whole is better off or worse off as a result of the year's activities. A key to the understanding of this question is the Statements of Net Assets, Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows which present financial information in a format similar to that used by businesses.

The Statements of Net Assets includes all of the Authority's assets and liabilities. It is prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The Authority's net assets are one indicator of its financial health. Generally, over time, increases or decreases in net assets will indicate the improvement or erosion of the Authority's financial health.

The Statements of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the fiscal year. In general, activities are reported as operating, nonoperating, capital contributions, and transfers. The Authority currently has only minimal operating activities, with the primary focus on construction activities of the biosolids capital projects.

Other important factors to consider when evaluating financial viability is the Authority's ability to meet financial obligations as they are due and its ability to generate future net cash flows. The Statements of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital financing and investing activities. In addition to information about cash transactions, the Statements of Cash Flows reconciles operating income (loss) on the Statements of Revenues, Expenses and Changes in Net Assets with net cash provided by operating activities on the Statements of Cash Flows.

Statement of Net Assets

| <i>June 30,</i> | 2008 | 2007 | % Change |
|---|----------------------|---------------------|---------------|
| Assets | | | |
| Current assets | \$ 2,486,526 | \$ 1,383,621 | 79.71 |
| Noncurrent capital assets | 9,653,022 | 1,133,551 | 751.57 |
| Total Assets | \$ 12,139,548 | \$ 2,517,172 | 382.27 |
| Liabilities | | | |
| Current liabilities | \$ 918,998 | \$ - | 100.00 |
| Noncurrent liabilities | 7,418,999 | - | 100.00 |
| Total Liabilities | 8,337,997 | - | 100.00 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 2,234,023 | 1,133,551 | 97.08 |
| Restricted net assets | 1,567,528 | 1,383,621 | 13.29 |
| Total Net Assets | 3,801,551 | 2,517,172 | 51.02 |
| Total Liabilities and Net Assets | \$ 12,139,548 | \$ 2,517,172 | 382.27 |

Current Assets

Cash

Cash of \$2,358,182 consists of cash in the Authority's interest-bearing bank account on June 30, 2008 after payments for supplies, construction in progress, and interest on state revolving fund debt. Cash deposits resulted from contributions to the joint venture by the City of Grand Rapids, Michigan and the City of Wyoming, Michigan, state grant funds, as well as the state revolving fund loan proceeds received in 2008.

Accounts Receivable

In fiscal year 2008, the Authority recognized a receivable from the Michigan Department of Environmental Quality for grant funds received just after fiscal year end, related to construction expenses paid in fiscal year 2008.

Noncurrent Capital Assets

Construction in Progress

The balance in construction in progress is the sum of all project-related expenses incurred by the Authority for the construction of the joint biosolids processing facility. These payments include construction, engineering, design, architectural, project management and legal consulting services. Construction is expected to be completed in fiscal year 2009. The Authority's strategy is to develop the project in phases over time while preserving the ultimate objective of achieving a Class A biosolids product.

The current project consists of the following four phases:

- Segment 1: Storage tanks (approximately 2.0M gallons) at Grand Rapids Wastewater Treatment Plant to accommodate intermittent pumping from Wyoming Clean Water Plant on weekends and holidays. The design permits the storage tanks to be converted in the future to secondary digesters.
- Segment 2: Pumping Station at Wyoming Clean Water Plant for transfer of biosolids to Grand Rapids Wastewater Treatment Plant site.
- Segment 3: Transmission pipelines to transfer biosolids from Wyoming Clean Water Plant to Grand Rapids Wastewater Treatment Plant.
- Segment 4: Mechanical de-watering operation located at Grand Rapids Wastewater Treatment Plant site, with landfill disposal.

Current Liabilities

Accounts Payable

Accounts payable at the end of fiscal year 2008 consists of expenses for goods and services received from vendors in the current year but paid for in the following year. The \$918,998 is construction and engineering invoices.

Noncurrent Liabilities

Contracts Payable

In September of 2007 and again in March of 2008, the Authority issued State of Michigan Revolving Fund (SRF) bonds with the Michigan Municipal Bond Authority. The bond proceeds are disbursed after the Michigan Department of Environmental Quality approves the invoices paid by the Authority. At June 30, 2008, the Authority had received proceeds from Series 2007 to finance construction for phases 1-3 totaling \$5,705,037, and proceeds from Series 2008 for phase 4 totaling \$1,713,962.

Net Assets

Net Assets represent the difference between Authority assets and liabilities and are restricted for the project. Total Net Assets at June 30, 2008 were \$3,801,551, an increase of nearly \$1.3 million over fiscal year 2007.

Invested in Capital Assets, Net of Related Debt

The \$2.2 million invested in capital assets net of related debt includes the costs of construction in progress less the outstanding related principal owed on the State Revolving Fund Loan. The 97.08% increase is due to the substantial amount of construction work done in fiscal year 2008.

Statement of Revenues, Expenses and Changes in Net Assets

| <i>Year ended June 30,</i> | 2008 | 2007 | % Change |
|----------------------------------|--------------|--------------|-------------|
| Revenues | | | |
| Contributions and capital grants | \$ 1,277,132 | \$ 2,472,868 | (48.35) |
| Interest income | 24,561 | 23,914 | 2.71 |
| Other | 5,500 | - | 100.00 |
| Total revenues | 1,307,193 | 2,496,782 | (47.64) |
| Expenses | | | |
| Operating expenses | 22,814 | 3,727 | 512.13 |
| Change in net assets | 1,284,379 | 2,493,055 | (48.48) |
| Net Assets, beginning of period | 2,517,172 | 24,117 | 10,337.33 |
| Net Assets, end of period | \$ 3,801,551 | \$ 2,517,172 | 51.02 |

Revenues

Interest Income

The Authority earned \$24,561 in interest income on cash balances in its interest-bearing checking account during the year ended June 30, 2008.

Expenses

Operating Expenses

The Authority incurred \$22,814 in operating expenses, primarily for professional fees and printing costs during the period.

Capital and Related Financing Activities

Contributions

As of June 30, 2008, the Authority had contributions totaling \$2,750,000 from the City of Grand Rapids and the City of Wyoming since the inception of the Authority. The Authority's Business Plan continues to assume significant portions of funding provided by the cities will be returned following completion of construction and funding the initial operating working capital requirements.

Capital Grants

The Authority was awarded a State of Michigan DEQ grant for the amount of \$1,000,000. During fiscal year 2008, the Authority received \$398,788, and accrued \$128,344 which was received shortly after year end. The Authority has collected the full amount of this grant.

Overall Financial Position

Management believes the Authority is in good condition financially. Revenues derived from both the City of Grand Rapids' and the City of Wyoming's Sewer system funds will be adequate to cover initial operating working capital requirements and future debt service payments.

Requests for Information

This financial report is designed to provide a general overview of the Grand Valley Regional Biosolids Authority, a joint venture of the City of Grand Rapids and City of Wyoming, for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Grand Rapids Comptroller's Department, 300 Monroe NW, Grand Rapids, Michigan 49503.

Financial Statements



Grand Valley Regional Biosolids Authority

Statements of Net Assets

| <i>June 30,</i> | 2008 | 2007 |
|---|--------------|-------------|
| Assets | | |
| Cash | \$ 2,358,182 | \$1,383,621 |
| Accounts receivable | 128,344 | - |
| Construction in progress (Note 3) | 9,653,022 | 1,133,551 |
| Total assets | 12,139,548 | 2,517,172 |
| Liabilities | | |
| Accounts payable | 918,998 | - |
| Contracts payable (Note 4) | 7,418,999 | - |
| Total liabilities | 8,337,997 | - |
| Net Assets | | |
| Invested in capital assets, net of related debt | 2,234,023 | 1,133,551 |
| Reserved for authorized project | 1,567,528 | 1,383,621 |
| Total Net Assets | \$ 3,801,551 | \$2,517,172 |

See accompanying notes to financial statements.

Grand Valley Regional Biosolids Authority

Statements of Revenues, Expenses and Changes in Net Assets

| <i>Year ended June 30,</i> | 2008 | 2007 |
|--------------------------------------|---------------------|----------------|
| Operating Expenses | | |
| Professional fees | \$ 2,500 | \$ 2,775 |
| Other | 20,314 | 952 |
| Total operating expenses | 22,814 | 3,727 |
| Operating Loss | (22,814) | (3,727) |
| Nonoperating Revenues | | |
| Contributions from local governments | 750,000 | 2,000,000 |
| State grant | 527,132 | 472,868 |
| Interest income | 24,561 | 23,914 |
| Other revenues | 5,500 | - |
| Total nonoperating revenues | 1,307,193 | 2,496,782 |
| Change in net assets | 1,284,379 | 2,493,055 |
| Net Assets, beginning of year | 2,517,172 | 24,117 |
| Net Assets, end of year | \$ 3,801,551 | \$2,517,172 |

See accompanying notes to financial statements.

Grand Valley Regional Biosolids Authority

Statements of Cash Flows

| <i>Year ended June 30,</i> | 2008 | 2007 |
|---|---------------------|--------------------|
| Cash Flows for Operating Activity | | |
| Payments to vendors | \$ (22,814) | \$ (3,727) |
| Cash Flows From (for) Capital and Related Financing Activities | | |
| Contribution from local governments | 750,000 | 1,000,000 |
| Proceeds from capital debt | 7,418,999 | - |
| State grant | 398,788 | 472,868 |
| Other revenues | 5,500 | - |
| Construction in process | (7,600,473) | (627,825) |
| Net cash from capital and related financing activities | 972,814 | 845,043 |
| Cash Flows From Investing Activity | | |
| Interest income | 24,561 | 23,914 |
| Increase in cash | 974,561 | 865,230 |
| Cash, beginning of year | 1,383,621 | 518,391 |
| Cash, end of year | \$ 2,358,182 | \$1,383,621 |

See accompanying notes to financial statements.

Grand Valley Regional Biosolids Authority

Notes to Financial Statements

1. Reporting Entity

The Grand Valley Regional Biosolids Authority (the Authority) was created pursuant to Michigan Public Act 233 of 1995. The Authority is a joint venture of the City of Grand Rapids and the City of Wyoming, both located in the County of Kent, State of Michigan. The Authority was created to operate a joint regional biosolids management project and other projects authorized by law.

The Authority's current goals and objectives are as follows:

- Address the issues associated with Class B land application of biosolids.
- Prepare for Class A/Exceptional Quality (EQ) Biosolids production in the future.
- Position the cities, via the Authority, for flexibility in biosolids disposal/reuse outlets, both in the short and long terms.
- Foster cost stabilization and predictability by reducing dependence on and exposure to economic factors beyond the control of the cities (e.g. fuel costs, etc.).
- Promote sustainability in biosolids reuse.
- Address existing equipment and facility age, capacity, and conditions issues at each treatment facility.
- Coordinate relocation of solids processing facilities at the Grand Rapid Wastewater Treatment Plant to allow for planned expansion of the liquid treatment process.
- Promote regional cooperation and take advantage of economies of scale that may be afforded by a regional approach.
- Ensure regulatory compliance.
- Minimize user cost impacts.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The statements of net assets and the statements of revenues, expenses and changes in net assets are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Grand Valley Regional Biosolids Authority

Notes to Financial Statements

Budget

The budget for the Authority is a project budget which spans several years, rather than an annual budget. Therefore, budget to actual information has not been reflected in the financial statements. The Authority will adopt an annual operating budget beginning in fiscal year 2010.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or other external restrictions. Net assets invested in capital assets, net of related debt consists of construction in progress reduced by contracts payable.

Cash Deposits

Statutes require that certificates of deposit, savings accounts, depository accounts and depository receipts are made with banks doing and having a place of business in the State of Michigan and who are also members of a federal or national insurance corporation.

Custodial Credit Risk Related to Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for mitigating custodial credit risk. At June 30, 2008, the Authority's bank balance was \$2,487,248 of which \$2,387,248 was exposed to custodial credit risk since it was uninsured and uncollateralized.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Grand Valley Regional Biosolids Authority

Notes to Financial Statements

3. Construction In Progress

| | Balance July 1, 2007 | Additions | Disposals | Balance June 30, 2008 |
|--------------------------------------|----------------------------|--------------|-----------|-----------------------------|
| Capital assets not being depreciated | | | | |
| Construction in progress | \$ 1,133,551 | \$ 8,519,471 | \$ - | \$ 9,653,022 |

Estimated cost to complete construction in progress is \$27 million.

4. Contracts Payable

| | Beginning Balance | Additions | Reductions | Ending Balance |
|----------------------|----------------------|---------------------|-------------|---------------------|
| SRF loan series 2007 | \$ - | \$ 5,705,037 | \$ - | \$ 5,705,037 |
| SRF loan series 2008 | - | 1,713,962 | - | 1,713,962 |
| Total | \$ - | \$ 7,418,999 | \$ - | \$ 7,418,999 |

The maximum proceeds available for disbursement for the Series 2007 is \$16,430,000 at 1.625% per annum; principal payments commence October 2009.

The maximum proceeds available for disbursement for the Series 2008 is 17,675,000 at 2.5% per annum; principal payments commence April 2010.

5. Commitments

As of June 30, 2008, the Authority has commitments totaling \$5.4 million from the City of Grand Rapids and the City of Wyoming. Currently, the Authority has received \$1,250,000 from Wyoming and \$1,500,000 from Grand Rapids. The Authority's Business Plan continues to assume significant portions of funding provided by the cities will be returned following completion of construction and funding the initial operating working capital requirements.